

Securities and Exchange Commission
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Consultation response from the British Standards Institution (BSI)

BSI welcomes the commitment by the Securities and Exchange Commission (SEC) to “regulate, monitor, review, and guide climate change disclosures” such that investors have access to “more consistent, comparable, and reliable information” and registrants have greater clarity as to their own obligations. Following the announcement that the Commission is seeking “public input on the Commission’s disclosure rules and guidance as they apply to climate change disclosures, and whether and how they should be modified”¹, BSI is pleased to comment as follows:

Q1 How can the Commission best regulate, monitor, review, and guide climate change disclosures in order to provide more consistent, comparable, and reliable information for investors while also providing greater clarity to registrants as to what is expected of them? Where and how should such disclosures be provided? Should any such disclosures be included in annual reports, other periodic filings, or otherwise be furnished?

Based on its experience as an independent global standards developing organisation (SDO), accredited certification body and National Standards Body (NSB) appointed by the UK government, BSI recommends that the SEC convene the stakeholders from the market infrastructure to shape the trusted market framework of requirements, standards and assurance needed to establish the desired ‘level playing field’ for regulators, investors and businesses not only to build and communicate integrity into reporting but also to stimulate the market pull by facilitating culture change through global supply chains. Such a framework can achieve the desired rapid scale across industry by leveraging existing global assurance frameworks without imposing unnecessary burdens or unworkable levels of enforcement by the SEC or other regulators. BSI would be pleased to act in that convening role.

Q3 What are the advantages and disadvantages of permitting investors, registrants, and other industry participants to develop disclosure standards mutually agreed by them? Should those standards satisfy minimum disclosure requirements established by the Commission? How should such a system work? What minimum disclosure requirements

¹ <https://www.sec.gov/news/public-statement/lee-climate-change-disclosures>

should the Commission establish if it were to allow industry-led disclosure standards? What level of granularity should be used to define industries (e.g., two-digit SIC, four-digit SIC, etc.)?

The primary advantage of permitting investors, registrants, and other industry participants to develop disclosure standards is that these stakeholders will have some level of buy-in to the standards they have mutually agreed.

The major disadvantage is that such standards will have little or no governance, no neutral, independent or enduring oversight or management and they are unlikely to include a formal process of structured public consultation or regular update. They may also lack the inclusive voice of all interested stakeholders. This approach creates risks of domination by vested interests, embedded intellectual property and fragmentation in the market which leads to confusion and lack of trust caused by use of different terminologies and variable quality.

Such risks may be mitigated by independent accreditation against an overarching framework standard that is itself developed and maintained through a formal governance process including wider stakeholder consensus, representation and consultation across regulators, business and all affected parties with clear lines of accountability.

If the overarching requirements are defined by the Commission in the absence of a market-led approach, this creates a substantial long-term burden of enforcement by engendering a tick box mindset in the market which has no sense of ownership.

An alternative model is to engage the independent standards community to oversee a stakeholder-led approach to the development of the minimum requirements and to maintain such a standard independently of the Commission and the accreditation organisations that will carry out any audit function.

Taking a systems-based approach with an independent standards body working with the Commission, investors, registrants, and other industry participants to host the governance of the requirements will help to create a sense of ownership and a positive culture that will accelerate the delivery of the SEC's policy objectives through market pull. BSI has long experience of building consensus amongst stakeholders via an open process of robust governance and public consultation and is accountable to industry, regulators and civil society for the UK national collection of over 47,000 standards, almost all of which are based on international standards, globally relevant.

Q5 What are the advantages and disadvantages of rules that incorporate or draw on existing frameworks, such as, for example, those developed by the Task Force on Climate-Related Financial Disclosures (TCFD), the Sustainability Accounting Standards Board (SASB), and the Climate Disclosure Standards Board (CDSB)? Are there any specific frameworks that the Commission should consider? If so, which frameworks and why?

The primary requirement is for the creation of a coherent and effective ecosystem of common terminologies and a functioning assurance and accreditation system, for the avoidance of overlapping rules. BSI can provide examples of how this works in practice based on its experience of working across multiple existing frameworks to develop consensus on the common principles that will help guide existing frameworks and new entrants towards agreed best practice.

It is essential that any overarching framework is international in nature. A prime example of how this approach can deliver at pace and at scale is BSI's support for the Integrity Council for the Voluntary Carbon Market (IC-VCM) where BSI has provided a governance process to create an overarching standards framework. A second example is through the work of the International Organisation for Standardization (ISO) which works through national delegations to create trusted, independent standards frameworks that are adopted worldwide and used by regulators and industry alike. Only a trusted market framework of requirements, standards and assurance can establish the necessary 'level playing field' for regulators, investors and businesses. Such a framework should build on existing standards and assurance eco-systems, underpinned by common terminologies, in order to become the vehicle for a global market for conformity assessment that will successfully deliver the SEC's objectives.

Q6. How should any disclosure requirements be updated, improved, augmented, or otherwise changed over time? Should the Commission itself carry out these tasks, or should it adopt or identify criteria for identifying other organization(s) to do so? If the latter, what organization(s) should be responsible for doing so, and what role should the Commission play in governance or funding? Should the Commission designate a climate or ESG disclosure standard setter? If so, what should the characteristics of such a standard setter be? Is there an existing climate disclosure standard setter that the Commission should consider?

AND

Q9 What are the advantages and disadvantages of developing a single set of global standards applicable to companies around the world, including registrants under the Commission's rules, versus multiple standard setters and standards? If there were to be a single standard setter and set of standards, which one should it be? What are the advantages and disadvantages of establishing a minimum global set of standards as a baseline that individual jurisdictions could build on versus a comprehensive set of standards? If there are multiple standard setters, how can standards be aligned to enhance comparability and reliability? What should be the interaction between any global standard and Commission requirements? If the Commission were to endorse or incorporate a global standard, what are the advantages and disadvantages of having mandatory compliance?

The advantages of a single set of global and relevant standards is that they help to promote a common international understanding of what is required to address administration burdens, and in so doing simplify an understanding of regulation. It is important to facilitate government use of global standards in support of an approach to their own national or sub-national market framework.

Having multiple standards-setters creates a fragmented environment with the risk of confusion and non-uniform take-up across individual countries and a high risk that standards are seen by the market as a compliance tool and administrative burden rather than as an enabler that drives competitive advantage. There are models whereby multiple standards setters are accredited against a single, overarching framework standard and this requires careful coordination of the vested interests.

There are many examples of government bodies or agencies working with standards bodies to develop a standard for the market that reflects their requirements. The IC-VCM example below is one. The use of standardization requests from the European Commission towards the regional standards bodies or requests from the UK government towards BSI is another. Similarly, industry bodies will also request BSI to develop a standard for global application as they see this approach as offering a stronger form of governance than operating as 'poacher and gamekeeper', setting and enforcing their own standard.

BSI is a founder member of the International Organization of Standardization (ISO), which was established by the UN Standards Coordinating Committee in 1947 to provide a global system for standardization based on national delegations, consensus and neutral governance without undue influence of any single set of stakeholders. Expert delegations brought together to work on standards are facilitated by their National Standards Bodies appointed by national governments. Countries are encouraged to adopt ISO standards as national standards and to promote them widely, including sign-posting through regulation where appropriate, which supports rapid adoption at scale of internationally-agreed good practice. Depending on the jurisdiction, such standards may be mandatory, recommended or purely voluntary. Enforcement will vary by jurisdiction and requirement. There are many examples that BSI would be pleased to share with the SEC of how such models work in practice.

BSI is an independent, global authority on standards and assurance practices, a permanent member of the governance of ISO (alongside the USA, France, Germany, Japan and China), and a non-profit-distributing organisation with no shareholders. This corporate structure is ideal for BSI to undertake the business of convening communities of interest without conflict of interest (unlike private interest standards bodies or industry consortia) and so support the building of consensus amongst all stakeholders via an open process with robust governance and public consultation. Standards developed through the international standards process (as followed by BSI and ISO) are technology-agnostic and patent-free.

BSI oversees the maintenance of a catalogue of over 47,000 standards that are used in the UK and globally. A small proportion of these standards are designated by the UK government for presumption of conformity to regulation.

BSI has long experience of convening government, regulators, industry and civil society in responding to the need for standards that can achieve impactful outcomes at a global level, especially in areas where there is an urgent need for global standards.

BSI's work to support the Integrity Council for Voluntary Carbon Markets (IC-VCM) in its global mission to build a trusted assurance ecosystem for carbon credits is one such example. The IC-VCM had an urgent need to develop governance around the development of a set of Core Carbon Principles (CCPs). These are the threshold standards which will establish a global benchmark for carbon credit quality. To be CCP-compliant, projects will need to have a clear, measurable, and direct impact in reducing carbon emissions and full environmental and social integrity. In 2021 BSI was appointed as of Head of Standards within the Executive Secretariat to support the IC-VCM Expert Panel in the development of the CCPs and assurance framework that will enable implementation globally. This appointment reflects BSI's deep expertise in the robust governance of standards development including the management of consensus along with key delivery milestones such as public consultation and its long history of shaping standards that help organizations measure and reduce their carbon emissions. The robust process being followed by the IC-VCM creates a strong foundation for the world to unlock the potential of the voluntary carbon market. In time the option remains for the IC-VCM to promote its framework standard into the international system through ISO, which BSI would undertake on its behalf.

BSI recommends that if it is considered appropriate to maintain multilateral governance of a single international standard, the appropriate body is ISO.

Alternatively, BSI could fulfill the role of providing neutral and independent enduring governance of the SEC international standard, its development and management through a market-led stakeholder consensus process. This would permit the SEC to focus on enforcement.

Q10 How should disclosures under any such standards be enforced or assessed? For example, what are the advantages and disadvantages of making disclosures subject to audit or another form of assurance? If there is an audit or assurance process or requirement, what organization(s) should perform such tasks? What relationship should the Commission or other existing bodies have to such tasks? What assurance framework should the Commission consider requiring or permitting?

In a well-designed standards eco-system with stakeholder engagement at the highest level, the SEC would provide a governance Board overseeing due process in the parallel activities of standards development and enforcement (assurance). For reasons of good governance but also because standards development, consultation and oversight requires substantial investment in infrastructure and resources, BSI would recommend that the standards and assurance framework was delivered by an independent expert body, as in the example of the IC-VCM above.

The framework standards will provide the principles and potentially the detail of the reporting requirements. Where this is based on a stakeholder consensus as recommended above then there is a strong desire of industry to demonstrate performance as this brings reputational and competitive advantage. Engaging the market in this way minimises the burden of enforcement through audit or other form of assurance, enabling the regulator to focus on the critical issues.

The question of whether disclosures should be subject to audit depends on the level of trust that the user community requires from the reporting organisations. There are different approaches to this, ranging from self-certification to third party audit. In the coming years, BSI anticipates that 24/7 feedback will be achieved through the embedment of digital 'SMART' standards in the workflow of organisations. However, for the time being the level of audit or other assurance is best determined by a risk based approach. Incentives may also be used to promote a positive culture of reporting, such as reduced numbers of audits (or no audits) for companies certified to appropriate management standards, which themselves will pick up compliance with the SEC reporting requirements. BSI would be pleased to discuss alternative models for audit and assurance with the SEC.

A well-designed framework standard will create a clear and equitable framework for audit by third party certification bodies, which themselves could be accredited by accreditation bodies under the appropriate international standard (e.g. ISO 17065 for products and services). This layered approach builds on the well-established frameworks in all countries for conformity assessment using the market operators. This would enable a global system to be developed at scale and at pace that will implement an appropriate level of audit as determined by the Commission. Alternative audit models, including self-declaration may also work well in low risk environments, for example where sectors or corporations have demonstrated high levels of achievement through 'earned recognition'. All these tools are used today and could be swiftly deployed to support the Commission.

What is essential to enable reliable and robust reporting is that the framework standards are easily



signposted (or directly referenced) across multiple regulatory regimes or jurisdictions as different cultures or market frameworks dictate. Rapid scale up can be achieved by mobilising existing audit and assurance structures in different countries as discussed above.

By using an assurance system based on existing global certification and accreditation systems and by positioning the SEC reporting standards within the framework of auditing of existing international management system standards, the assessment and enforcement burden may be minimised and scarce resource focused on high risk organisations or sectors. Such a system can be designed to work in any jurisdiction working with state/federal/national authorities to meet local reporting regulations. BSI would be pleased to advise on how this may be achieved.

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